

TRANSMITTAL SLIP		DATE 10 Nov 82	
TO: <input type="text"/>		A/NIO/EA	
ROOM NO.	BUILDING		
REMARKS:			
In view of the NFIB discussion on Monday, you might be interested in this editorial from today's Wall Street Journal.			
FROM: C/NIC			
ROOM NO.	BUILDING	EXTENSION	
FORM NO. 1 FEB 55 241		REPLACES FORM 36-8 WHICH MAY BE USED. (47)	

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U.S.-Japan Salvos

Trade frictions between the world's two largest market economies have been getting uglier than usual. The Japanese are growing more and more irritated by the hectoring and often inconsistent demands by U.S. politicians. Meanwhile Americans, especially those most committed to free trade, are increasingly upset that Japan isn't doing enough to eliminate its few remaining trade barriers. Here are some suggestions for both sides.

For the Americans, let's stop complaining about the bilateral trade deficit until the U.S. Congress decides to lift the ban on the export of U.S. oil. That action alone could slash the U.S.-Japan deficit by billions.

And let's not hear anything more about the "undervalued" yen. The dollar has appreciated against all major currencies, as a result of domestic monetary policy and expectations about future U.S. financial stability and economic strength. There is no evidence that the Japanese have manipulated exchange rates to keep the yen low; on the contrary, officials such as Bank of Japan Governor Haruo Mayekawa have publicly expressed worries that the depreciation of the yen is *hurting* the Japanese economy. In any case, liberalized access to Japanese financial markets, which U.S. officials are also (quite properly) pushing for, would further depress the yen, at least in the short run.

Finally, let's hear a little less demagoguery about how Japanese customs inspections and the like are all that keep U.S. car companies and other manufacturers from swamping the Japanese market. Anyone familiar with, for example, the size of Tokyo parking places and the quality of small U.S. cars, as well as the price differential—the average retail car

price is \$3,000 lower in Tokyo than in New York—will tell you that just isn't so.

On the Japanese side, we'd like to see more attention to the political balance between free-trade and protectionist forces in the U.S. and other Western countries. It is hard to overemphasize the damage that will be done both to Japanese export interests and to the world economy in general unless the free-trade forces are given something to fight for. And that means a stronger Japanese commitment to trade liberalization, particularly in agriculture, tobacco and high technology.

Ruling Liberal Democratic Party politicians in Japan may feel that they have gone as far as they can in liberalizing; in particular, they fear that possible inroads by the Socialist opposition into their rural power base make it difficult to lower barriers on rice, citrus and beef imports. But at the same time, they might want to pay attention to the weakening of the free-trade coalition in the U.S. The U.S. labor movement, once the strongest political supporter of free trade, has already turned protectionist. Even the U.S. farm lobby can no longer be counted on to oppose domestic protectionism; instead its major trade issue these days seems to be complaining about export rebates by the European Common Market.

Such groups, as well as U.S. and European hi-tech exporters, can be brought back onto the free-trade bandwagon. But they need a good reason and they need something to show for their efforts. Japan, which would lose more than any other economy from a world trade war, could play a much stronger role in preventing one, by removing its remaining trade irritations.